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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

7 September 1983

Japan: The Defense Budget Calendar

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We believe Prime Minister Nakasone is committed to a significant improvement in Japanese Self Defense Forces (SDF), but has little room to play with the FY84 budget ceiling of 6.9 percent. Tokyo is struggling with a large budget deficit and Nakasone's political advisers are concerned that a strong push by the Prime Minister will reestablish his hawkish image in the public eye. He may have more room to maneuver in the FY85 budget following a Lower House election to be held before next June.

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The Budget Cycle

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The Ministry of Finance has begun its final negotiations with the other Ministries to establish the final draft budget for FY84, which begins on 1 April.

- As it has in the past, Finance will take the preliminary expenditure ceilings announced in mid-1983 and make further cuts.
- Its proposals are shown to the senior political leadership in November and formally submitted to the Cabinet in December.
- By tradition the Cabinet announces the final budget on 27 December.

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This memorandum was prepared by the Office of East Asian Analysis

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[redacted]

Finance will probably recommend a spending increase for defense below the 6.9 percent preliminary ceiling. Finance officials argue that the budget deficit--now roughly 4 percent of GNP--requires further cuts in spending. With the exception of defense, aid, and energy measures, all sectors of the budget have been told to hold spending 10 percent below the FY 83 level. [redacted]

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The Political Factor

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We believe most LDP leaders decide on the defense budget based on what they believe is the minimum that would prevent damage to the US-Japan relationship. In recent years they have tended to approve spending levels above the final MOF ceiling. Last year, for example, Finance lowered the ceiling from the original 7.3 percent level to 5 percent and the Cabinet pushed it back up to 6.5. [redacted]

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We do not believe US pressure now would have a significant impact. The LDP is aware of Washington's views and of Nakasone's interest, and as a result, probably will keep Finance from making deep cuts. Nonetheless, their concern over the deficit and the lack of strong public support for a defense buildup preclude a sharp increase in the ceiling in FY84. [redacted]

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The Next Window

[redacted]

[redacted] he is committed to improving the SDF. He appears to be trying to build public support by linking an improved SDF to Japan's responsibilities as a world power. Continued sabre rattling by Moscow over SS-20s and overt actions such as the recent KAL incident could make the Prime Minister's job easier. His next opportunity to bolster spending appears to be in early 1984 when negotiations begin on the FY85 budget ceilings. Whether he opts for this path probably depends on how well the LDP fares in the 1984 elections. [redacted]

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We believe it would take a sharp increase in outlays, however, to fulfill the goals of the current Mid-Term Operations Estimate (MTOE) and even more to meet the goal of defending Japan's sea lanes.

- A growing share of the budget is being used for personnel costs, including retirement.
- Although only 70 percent of the hardware for the MTOE has been ordered, deferred payments on these orders could become enough of a burden in the future to delay further purchases. [redacted]

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The Japanese Budgetary Process

<u>Date</u>	<u>Event</u>
Spring	Ministry of Finance (MOF) informally consults with ministries about requirements for the coming year.
June or July	The Cabinet approves MOF proposed ceilings for budget requests being prepared by ministries. MOF also makes its first revenue and expenditure estimates during the summer.
End of August	Ministerial requests are presented to MOF.
September	MOF begins the examination and hearings process for requests.
Fall	MOF fits ministerial requests into a framework of revised revenue and expenditures estimates. This process is subject to considerable informal political pressure.
Late December	MOF budget draft is presented to other ministries. Presentation is followed by a week of "revival" negotiations during which other ministries and agencies, with the support of their allies in the Diet, argue for restoration of cuts made by MOF. Cabinet members and the three senior Liberal Democratic Party leaders meet at the end of the week to make final decisions.
Year's end	Government budget draft, which is almost never changed in the Diet, is approved by the Cabinet.
January-March	Government draft is presented to the Diet. Public hearings, committee deliberations, and passage by the Lower and Upper Houses follow. Opposition parties may delay passage to force concessions on other issues, but the contents of the budget generally remain unchanged.
End of March	Official budget is approved.
April	The new fiscal year begins.

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